

ANCA
VOC FOR IOP/FN
BACKGROUND NO. 5-5504
RICHARD KILIAN/GENEVA

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FLAGS OF CONVENIENCE

ANNCR:

A UNITED NATIONS COMMITTEE IS AGAIN LOOKING INTO THE COMPLEX QUESTION OF CONTROLLING SHIPS THAT SAIL UNDER WHAT IS KNOWN AS FLAGS OF CONVENIENCE. THOSE SHIPS ARE OWNED BY OTHERS THAN THE NATIONALS OF THE COUNTRIES INVOLVED. RICHARD KILIAN HAS THIS BACKGROUND REPORT FROM GENEVA.

VOICE:

THE SUCCESS OR FAILURE OF THIS CONFERENCE TO ESTABLISH INTERNATIONAL CONTROL OVER THE PRACTICE OF FLAGS OF CONVENIENCE -- A 10,000 MILLION DOLLARS A YEAR BUSINESS -- DEPENDS ON THE DEFINITION OF TWO WORDS -- GENUINE LINK.

THOSE WORDS ARE SUPPOSED TO INDICATE WHETHER OR NOT THE RELATIONSHIP BETWEEN THE SHIP OWNER AND THE NATION OF REGISTRY IS NOT BASED PURELY ON AVOIDING TAXATION, SIDE STEPPING MORE EXPENSIVE INTERNATIONAL SAFETY AND WORKING STANDARDS, OR UNDERCUTTING COMPETITION FROM CAREFULLY-REGULATED NATIONAL FLAG CARRIERS.

STATISTICALLY, THIRTY ONE PERCENT OF THE WORLDS MERCHANT MARINE SAILS THE OCEANS UNDER THE FLAGS OF LIBERIA, PANAMA, SINGAPORE, CYPRUS, SOMALIA, BERMUDA AND THE BAHAMAS. SHIPOWNERS PAY TOKEN FEES TO THESE COUNTRIES FOR THAT RIGHT AND FOR NON-INTERFERENCE IN THEIR OPERATIONS. THE MAJOR PART OF THESE VESSELS ARE OIL TANKERS AND BULK CARRIERS.

ACCORDING TO FIGURES COMPILED BY THE UNITED NATIONS ON TRADE AND DEVELOPMENT (UNCTAD), IN 1975 GREEK AND AMERICAN OWNERS CONTROLLED FORTY SIX PERCENT OF THE SHIPS FLYING FLAGS OF CONVENIENCE. BUT UNIDENTIFIED OWNERSHIP TOTALLED FORTY EIGHT

PERCENT. UNCTAD SAYS ALMOST ALL OWNERS ARE CITIZENS OF DEVELOPED COUNTRIES.

THE UNCTAD STUDY LISTS FOUR MAIN REASONS FOR THE EXISTENCE OF FLAGS OF CONVENIENCE....CHEAP CAPITAL FOR NEW SHIPS THROUGH UNTAXED FINANCING....NO TAXES ON SHIP OWNERS PROFIT OR SAILORS INCOME....NO OBLIGATION TO SEND PROFITS HOME, AND PERHAPS THE MOST IMPORTANT, ACCORDING TO SOME SOURCES....LOW MANPOWER AND MAINTENANCE COSTS AFFECTING SAFETY.

UNCTAD ESTIMATES THAT SHIPS FLYING CONVENIENCE FLAGS DO AN ANNUAL BUSINESS OF AROUND TEN THOUSAND MILLION DOLLARS....MONEY, THEY SAY, WHICH IS LOST TO GOVERNMENTS ESPECIALLY TO DEVELOPING COUNTRIES ANXIOUS TO BUILD THEIR OWN MERCHANT MARINE.

THE UNITED NATIONS COMMITTEE WILL DEBATE FIVE QUESTIONS. THE FIRST IS WHETHER EACH SHIP SHOULD BE OWNED, SUBSTANTIALLY, BY THE FLAG STATE OR ITS NATIONALS. SECONDLY, WHETHER THE PRINCIPAL PLACE OF BUSINESS FOR THE SHIP SHOULD BE IN THE FLAG STATE. IN ADDITION, WHETHER THE PRINCIPAL OFFICERS OF THE OWNING COMPANY SHOULD BE NATIONALS OF THE FLAG STATE WHICH SHOULD HAVE FINANCIAL CONTROL AND IMPOSE TAXES. AND FINALLY, WHETHER THE FLAG STATE SHOULD EXERCISE DIRECT CONTROL OF THE STANDARDS OF THE VESSEL AND THE QUALIFICATIONS OF THE CREW.

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